THE LONGWOOD SMALL BUSINESS DEVELOPMENT CENTER "COOKBOOK"

How to Start Your Own Business

A Recipe for Obtaining Capital



This document was developed by the Longwood SBDC to assist entrepreneurs in starting their businesses. For more information on the LSBDC, offices closest to you, or for an appointment, please call our Farmville, Virginia Office at 434-395-2086, or visit our website at www.longwood.edu/sbdc

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THE LONGWOOD SMALL BUSINESS DEVELOPMENT CENTER "COOKBOOK"

How to Start Your Own Business

When you hear the phrase "The American Dream," the first things that usually come to mind are owning a home and owning a small business. This booklet is designed to give prospective small business owners a superficial overview of what it takes to make the dream a reality. It is impossible to cover *all* aspects of launching an entrepreneurial endeavor in a few pages, so this document is focused mainly on obtaining capital. The concepts discussed will also be helpful to existing small business owners planning an expansion or looking for financing to solve a business problem.

The best preparation for starting a business is several years of business education, followed by several more years of business experience. (Try it out with someone else's money first.) So, we shall assume that after a few years in the "Rat Race" you have decided to become an entrepreneur. What should you do?

Step 1 - Evaluate your entrepreneurial abilities. Take the feasibility assessment located at the end of this document, page 37. The questions contained in this document will help you focus on the personal considerations and skill sets required to run a successful business.

Step 2 - Evaluate your ability and willingness to assume risk. Most new ventures fail and you should be willing and able to take that risk both psychologically and financially. There are two documents within this outline that will assist you in determining your ability to assume risk. The feasibility assessment mentioned in step 1 will help you to evaluate both psychological and financial risk, while the personal financial statement on page 34 will assist you in more thoroughly analyzing your financial situation.

Step 3 - Evaluate your personal creditworthiness. You can obtain a credit report from one of the national credit bureaus. Both bureaus charge \$9.50 for the report.

Experian (Formerly TRW) 1-888-397-3742 http://www.experian.com Equifax 1-800-685-1111 http://www.equifax.com

Step 4 - Choose the venture based on your interests and skills and, of course, the need for that product or service in your market area.

Step 5 - Gather information for a business plan and loan proposal.

Use the Business Plan Outline as a checklist to help you gather the necessary information for start-up, operations, marketing, and so on. In addition to creating a financing proposal, doing a business plan will help *you* determine: 1) if your idea is feasible; 2) how much the venture will cost to start; and 3) how much volume you will need to do to stay in business.



Every day, bankers see people who want a business loan for the "opportunity of a life-time" that "just can't fail." These want-to-be entrepreneurs usually attempt to explain their notion orally, and have done no research on the feasibility of the idea. In order to be taken seriously about your business loan, it is imperative to write a formal business plan. When a banker analyzes a business loan application he/she looks at the 8 C's of lending:

- Credit It must be good
- Collateral Something of value to secure the loan
- Cash Flow Ability of the business to repay the loan from operations
- Capacity Your *personal* ability to repay
- Capital Your cash investment or down payment
- Character You!
- **Conditions** Anything that can affect your business (industry, economy, etc.)
- Commitment Your will to succeed

Each one of these items must be addressed in the business plan. If you walk into the banker's office with a plan in hand, you have made the first step in separating yourself from the pack.

Step 6 - Financing Your Business. Lack of capital is a major cause of business failure. You must know not only how much money you need to start the project but also how much working capital will be needed to carry you through the first few months of operation.

The remainder of this document focuses on business financing and the business plan. In addition to getting your requested financing, your business needs to get legal with federal, state, and local government agencies. You need to decide what legal structure (Sole Proprietorship, S-Corporation, LLC, etc.) is best for your situation. You will probably need to address these questions in the business plan.

The Longwood SBDC has resources available to provide information on how to keep financial records and how to properly register your business. However, we do recommend engaging the services of an attorney, a CPA, and other professionals to make sure you have done everything necessary to stay out of trouble, maximize your efficiency, and minimize your risks and liabilities.

The Longwood SBDC is available on a continuing basis to assist business owners with one-on-one business counseling. Many readers will find that they would like assistance in preparing a business plan. Please contact us if you would like to make an appointment. A counselor will give you a pre-counseling checklist of items that will be helpful in our quest to assist you.

Facts About Small Business Loans

- 1. You will need good credit. If there are any problems on the report that can be remedied before meeting with a banker, do so. A lender may be able to make exceptions if you can document that a negative report was due to circumstances beyond your control. Include a detailed written explanation with supporting information in your financing proposal. However, if the report shows that you are irresponsible and you have not demonstrated a willingness to repay obligations, the lender will be unable to make a loan.
- 2. There is no such thing as 100% financing. You are going to have to put some money into the business and the more the better.
- 3. A bank will require you to personally guarantee the loan even if you are incorporated. There is no way to avoid putting personal collateral at risk. If necessary this could include your house.
- 4. **Some businesses are easier to finance than others.** Since over 60% of all small business start-ups fail within 5 years, lenders know that the odds are against a new business being around long enough to repay a loan. An existing business is easier to finance if profits are sufficient to repay the loan. Also, many sellers are willing to hold some of the financing. Franchises are generally easier to finance than independent start-up businesses.
- 5. **The process is not quick.** If you must have the money to open by a certain date, make your loan application as far in advance as possible.
- 6. **There is no such thing as a grant.** We have never heard about anyone anywhere who got free money from the government to open any type of for-profit business.
- 7. The Small Business Administration does not lend money. The SBA does have a guaranty program that is designed to provide more security to lenders so that they will lend money to small ventures, which would be too risky for a regular bank loan. SBA guaranteed loans are made and processed by a bank, with the SBA guaranteeing up to 80 percent of the loan. Interest rates and repayment terms are negotiated between you and the lending institution. SBA does limit the interest rate the lender can charge and there is a small guaranty fee. Ask a business counselor with the Longwood SBDC for additional information on SBA programs.

Types of Capital

Start-up Capital

Start-up capital is the money you need to spend before the business opens. The amount varies widely depending on the type of business. Some examples include:

- 1. Seed money Research and planning (usually for high-tech businesses)
- 2. Security deposits for a lease, utilities, etc.
- 3. Construction, renovations, signs
- 4. Equipment, tools, office equipment, etc.
- 5. Inventory
- 6. Labor Hiring and training staff before opening
- 7. Legal and accounting fees

Working Capital

Working capital is the money needed for day-to-day business expenses. You must have enough working capital available to pay all your bills until the business becomes profitable enough to support itself. This can take from several months to several years. After you complete your pro forma monthly cash flow projections you will have a very good estimate of the amount of working capital you will need. Avoid using the 3 to 6 month "Rule of Thumb" method. Allow a little extra for unexpected things. If you have just enough money to get started but not enough to properly operate the business, you may be doomed from the start.

Types of Financing

1. Debt Financing

Debt financing does not give the lender ownership control, but the principal must be repaid with interest. Length of the loan, interest rates, security and other terms depend on what the loan is being used for.

Commercial Bank Loans



- A. *Short-term:* Loans for short periods (30 180 days) usually made to cover temporary or seasonal needs for inventory or personnel. These are common for established businesses, but may be hard for a new business to obtain.
- B. *Medium to long term:* These loans may be repaid over anywhere from 1 to 5 to even 20 years depending on how the funds are used. The source of repayment is the cash flow of the business. Typical uses are for equipment, fixed assets, etc. Most loans to start a small business will be of this type.

- C. *Real estate financing:* Real estate is typically financed over a fairly long term, 10 to 30 years. Expect a down payment of about 20%.
- D. *Accounts receivable financing:* Money loaned against accounts receivable pledged as collateral.

2. Equity Financing

Equity is money put into a business by the owner, private investors, and/or venture capitalists. Equity gives an investor ownership and possibly some control of the business.

- A. *Your own savings:* It is nearly impossible to start a business without using some of your personal funds. It is hard to convince someone to take a risk in your idea if you do not.
- B. *Friends, relatives, business associates, etc.*: Most small businesses get started with this kind of help. They may provide some of the cash or may back a loan from a financial institution.
- C. *Venture capitalists:* Groups invest in a new firm (usually high tech or innovative concepts) looking for an obscenely high return on investment. Minimum investments are from several hundred thousand to millions of dollars.

3. Internal Financing

- A. *Customers* can be a source of temporary financing if they provide the raw materials or if they pay cash deposit. This is not feasible in most businesses.
- B. *Trade Credit:* Once you have obtained a good reputation with your suppliers you may be able to have credit for anywhere from 30 to 90 days. You may be able to order, receive and sell the goods before the bill is due.
- C. *Profit:* Hopefully you will earn enough profit to be able to invest in and expand your business.



Leasing is simply another form of financing. Leasing reduces the cash needed up front, but like a loan you are obligated to the payment for a certain period of time. Some lease contracts give you ownership of the leased item at the end of the term for a specified amount. If your credit is less than perfect, leasing may still be an option. Leasing companies and manufacturers are sometimes less stringent with their lending practices because they are usually leasing equipment that can be easily repossessed. This might be a good option for vehicles, heavy equipment, computers, phone systems, etc.

The Business Plan General Tips

Make it brief, to the point and easy to read.

The summary items (Source & Application of Funds, Statement of Purpose, Executive Summary) and financial projections are the first parts of the plan your banker or investor will read. If they make financial sense, then the rest of the plan will have additional value. Use layman's terms (or include a glossary) if your industry uses technical terms.

➤ Unless you are requesting a very large amount of money, don't exceed 20 pages. Voluminous research data, surveys, letters of intent, catalog pages, samples, diagrams and other information should be included in a separate binder as an appendix.

> Use a Market Driven Approach.

Marketing is the engine that drives the projected sales revenues. Demonstrate and substantiate how the customer will benefit and be motivated to purchase.

Exploit Your Company's Uniqueness.

Explain what will give your company a competitive edge in the marketplace (patents, trade secrets, copyrights, barriers to entry, etc.).

Emphasize Management Strength.

Convince the reader that you have the skills and expertise needed to actively manage the business. If you need a key employee (i.e. a chef in a fancy restaurant) indicate the incentives that will keep them with you.

> Present Attractive Projections

Paint a realistic picture - substantiated by assumptions - of where your company is going with the funding. Be detailed and keep it credible.

➤ Weave the theme "This is how you get your money back" into the entire plan.

Be definite about how investors will get their money back and when. For lenders, show that their funds are adequately secured and that your cash flow more than covers their interest and principal payments.

> Avoid computer software business plans where you plug in numbers.

Individualize your financial projections because no two businesses are alike and a startup company will not fit the standard industry norms.

> Expect to spend a minimum of several weeks working on your plan.

As you gather information, the plan will need to be continuously revised and edited. It's not unusual to spend up to a year developing a detailed plan.

> Borrow enough money up front.

Don't assume that the bank will loan you more money if you need it.

> Do your homework.

It is likely that the loan officer will have to present your plan to a loan committee. If your plan is not complete enough to sell itself, your chances of approval are slim.

Learn from your mistakes.

If you are rejected by the first bank you contact find out why and fix the problem.

> Prepare and rehearse your oral pitch.

> Proofread the plan.

Have someone else read your plan for style, spelling, grammar, accuracy, consistency, and completeness. If it is an easy plan to read and understand, it will be easier for possible financing sources to say "YES!"

If the lender can answer yes to every question associated with the 8 C's, they will probably make the loan. You will soon be experiencing 80-hour workweeks, sleepless nights, no vacations, domestic squabbles, and punitive government regulations. You may also experience a level of satisfaction unmatched by anything else you will ever do.

The Business Plan Outline

These items are in the order they would appear in a finished business plan. Some sections like the cover page, table of contents, executive summary, etc. should actually be created later in the process. These sections are noted with an asterisk (*).

<u>Cover Letter</u>* - If you are sending the business plan to the bank in the mail include an introductory cover letter.

Cover Sheet*

Full formal name of company (Logo if you have one)

Legal ownership status (Sole Proprietorship, S-corporation, LLC, etc.)

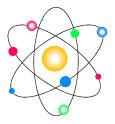
Full street address (mailing address if different)

Phone, Fax, e-mail, web site, etc. (Home phone number optional)

Principal contact name and title

Date the plan Number the plan (optional) Business Plan / Financing Proposal

ACME IDEA CO., INC.



A Virginia S-Corporation

123 Rocket Lane Littletown, VA 23456

Phone (804) 555-1111
Fax (804) 555-2222
Web Address: www.acme.com
Email: coyote@acme.com

Wile E. Coyote President

August 12, 199X

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Statement of Purpose*

- Brief description of the company, products or services, and location.
- The amount of money requested and the amount invested by the owners.
- How the money will be used and how it will be repaid.
- The positive effect the money will have on the business.

Example:

Statement of Purpose

The purpose of this document is to demonstrate the revenues and expenses associated with the ownership transfer of Loony Toons Produce. I, Bugs Bunny, wish to purchase this well-established retail produce store located on Main Street, Toontown from Elmer Fudd. Mr. Fudd has owned the business for several successful years and is selling for health reasons. The business had gross sales of approximately \$342,000 in 1994, \$295,000 in 1995, and over \$400,000 in 1996. Net income provided to the owner from the business has consistently been well over \$50,000 (owner's salary, business net profit, and depreciation).

We have agreed on a price of \$95,000 for the business. This includes all fixtures, supplies, leasehold improvements, and inventory. (No real estate conveys.) Inventory as of this date is approximately \$50,000 at cost.

I would like to request a fixed term business loan in the amount of \$90,000 to be used for the purchase of the assets of Loony Toons Produce Store and for use as working capital. I will inject at least \$20,000 toward the project.

The projections demonstrate that the business can generate enough income to amortize the requested funding. This transaction qualifies for a Small Business Administration Low Doc Loan Guaranty and all business assets and equity I have in real estate and personal property will collateralize the loan.

Executive Summary*

This is optional. Write one if the written portion of the plan is longer than ten pages. The executive summary gives the reader a one-page overview of the business and business plan. Do it last.

- Name
- Location and facility description
- Introduction to Owners and Management team
- Brief summary of sales and profits from last couple of years if applicable
- Brief explanation of the product or services
- Information on the market, target market, competition, and how you will promote & sell the product/service
- Summary of projections, loan requirements and time-frame for repayment of funds



Business Description

Company Profile

- Name, Address, Phone, etc.
- Owners (Duties, Backgrounds, Percentages, Positions, etc.)
- Legal form of business (Sole Proprietorship, Partnership, Corporation, LLC, etc.)
- History and/or start date of the business
- Recent sales and profit figures
- Business location and description of the physical facilities
- Classification of business (Retail, Wholesale, Manufacturing, Service, etc.)
- Business Advisors (Lawyer, Accountant, Banker, Insurance Agent, Industry Contacts)

Market Description and Analysis

Product or Service

- *Clearly* describe your product or service.
- Does it possess superior quality?
- Superior Customer Service?
- Uniqueness?
- Features and Benefits:
 - Features are the Attributes
 - Benefits are what sell the product/service!

- What additional service will you provide?
- Explain any special training needed to sell or use it.
- Include all relevant regulations and laws that may affect its sale or use.
- Proprietary position (Patents, Copyrights, etc.)



Target Market

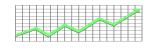
- > Develop a description of your typical customer.
 - What customers form your market?
 - Where are they found?
 - Why will they purchase your product or service rather than another?
- ➤ Is there a large enough target market to support your product/service & generate a profit?
- ➤ Demographic Analysis
 - Age
 - Sex
 - Socioeconomic background
 - Income levels
- Psychographics Analysis (Life-style)
 - Buying patterns
 - Consumer habits

Market Analysis & Strategy

- Description of total market
- ❖ Indicate what strategies are needed to sell to this market (price, promotion tools, communication messages, and distribution methods)
- ❖ Point out any political influences or factors
- ❖ Describe market coverage (local, regional, national, international)
- Industry Trends
 - ◆ Past Brief explanation of product/service history How long has the product been in existence?
 - Present-What is happening now in the market place?
 - Future -What developments do you see for the future?

Is the industry in an upswing/downswing?

Are there any societal trends or tastes that will influence the industry?



Marketing Research

Use charts, graphs, and tables if they can make the presentation clearer and more impressive.

- **Primary Data:** Marketing research that you conduct yourself
 - Telephone survey
 - Mailed questionnaire
 - Personal interviews
 - Focus groups
- > Secondary Data: Information researched by the business through other sources
 - Industry Associations
 - Government Research Reports
 - Industry Profiles

Competitive Analysis



- □ List the four nearest competitors.
 - How are their businesses doing?
 - How will your business be better than the competition?
 - What are the strengths and weaknesses of your competitors?
 - What have you learned from looking at the competition?
 - Operational strengths and weaknesses
 - What does your product/service offer over the competition?
 - Locally or nationally owned and operated?
 - Their Pricing strategy
 - Product comparison
 - Length of years in business
 - How do they advertise?
- □ How you intend to exploit the competitive advantage?
 - Don't trash the competition. They are probably doing something right.
 - Stress advantages of price, quality, warranties, service, and distribution

Pricing Strategy

- Set objectives for the pricing strategy.
- Prices to be charged for the products or services.
- Low, medium or high end price strategy?
- Market acceptance of your price.
- Can you make a profit at your selling price?
- Will you be discounting your pricing on a regular basis?
- Will you give trade or volume discounts?
- Break-even level. (Put a more expansive break-even analysis in the financial section. See the Appendix for a simple break-even formula.)

Promotional Strategy

- ➤ What promotional methods will you use and why?
- Newspaper
- Penny Saver
- Radio
- Television

- Direct Mail
- Flyers
- Brochures
- Direct Selling
- Other unique ways to promote your business.

- Trade Magazines
- Networking
- Business Cards
- Word-of-mouth
- > Detail how you are going to sell the product or service.
- ➤ What is your Unique Selling Proposition (USP)?

USP is the benefit, appeal, or big promise that you hold out to potential customers that no other competitor offers. But unless it motivates your prospect to take action, it is worthless.

Example:

Spring Lawnmower Tune-Up Special \$29.95

USP ⇒⇒

"If it doesn't start on the first pull, the tune-up is on us!"

- Cost analysis of advertising
 - What is your yearly budget?
 - Is it a fixed amount or a percentage of projected sales?
 - Complete promotional spending and timing chart (tie in with the pro formas).

Distribution

- Methods and costs to get the product or service into the ultimate customer's hands.
- Target Area (Local, regional, state-wide, national, or international distribution)
- Sales Force Distribution
- Sub-Distributors, Dealers, Consignment, etc.

Location Synopsis

- Is the address important?
- What are the physical features?
- Is it leased or owned?
- Is renovation required?
- List of improvements and costs (Put contractors' quotes in appendix section)
- What other types of businesses are in the area? (Retail, service, wholesale etc.)

- Why is this location right for the business?
- What are the operating costs for this location? (Rent, electricity, sewage, phone, etc.)

Operations Plan



Logistics

- Current floor plans and expected future space plans for production and selling.
- Task/time charts and schedules.
- Describe the timing and sequential steps to bring the company up to full speed. Take it month by month for the first year and quarterly for the next couple of years. Make sure the cost and timing of these events are reflected in the pro forma statements.
 - ⇒ Completion of Prototypes
 - ⇒ Significant contracts and orders
 - \Rightarrow When key people are to be hired
 - ⇒ Physical expansions or moves
 - ⇒ Opening of branches
 - ⇒ Trade show or convention dates
 - ⇒ Major equipment purchases, and so on.

Suppliers

- Names and locations of suppliers
- Terms and conditions of purchase
- Contact person
- Trade volume discount
- Minimum order requirements
- Product availability
- Shipping restrictions
- Exclusive rights to the product

Operating Regulations (Federal, State, Local, Industry)

- Taxes
- Licenses Required
- Zoning
- Insurance and/or Bonding Requirements
- Is there a need for Patent, Copyright or Trademark?
- Association Fees

Human Resources

Management

The quality of the management team often determines the potential success of the company. Include career highlights, accomplishments, and positions held. Why are you qualified? (See enclosed resume form.)

- Organizational structure and chart
- Job description, roles and responsibilities of employees
- Service and employee contracts
- Details on advisors and associates
- Future human resource requirements



Risks, Problems & Future Plans

- Discuss high profile, success-threatening risks and possible solutions or strategies to address them.
- Where do you want the company to be in the future? (New products or services)

Financial Information and Analysis

For Existing Businesses:

- Income Statements, Balance Sheets, and tax returns from the last three years.
- Interim Financial Statements (Year-to-date). Must be less than 90 days old as of the application date. To be safe, try to make them less than 30 days old when you put the package together.
 - Include Accounts Receivable and Accounts Payable Aging Schedules. (See attached schedules)
 - Make sure all the dates on the interim financial statements match
 - All numbers on the supporting statements must agree with the Income Statement and Balance Sheet
- List of all business obligations (See attached table)

For All Businesses:

• **Personal Financial Statements** for all individuals owning 20% or more of the business. (See enclosed Personal Financial Statement).

- **Pro Forma Statements (projections)** on a monthly basis for two years and on an annual basis for three to five additional years. Include detailed explanations for projected numbers (assumptions).
 - ⇒ **Income Statements** (See Worksheet #2 and #3)
 - ⇒ Cash Flow Statements (See Worksheet #4)
 - ⇒ **Balance Sheets**: Projected statement of assets, liabilities and equity. Demonstrate what the balance sheet will look like after obtaining and applying the funds. Show what it will look like on the day you open the business and 12 and 24 months after getting the loan (the first two years). See enclosed blank sample.

Break-Even Analysis

Comparisons of important financial information and key ratios to industry averages.

Appendix (Supporting Information)

- Glossary (if pertinent)
- Equipment quotes
- Product brochures
- Customer listings
- Testimonials
- Resume(s)
- Trade association information and supporting evidence
- Written construction / leasehold improvement estimates
- Purchase Orders
- Letters of Recommendation
- Job Descriptions
- Newspaper and magazine clippings
- Special awards and achievements
- Letters of Intent

The following pages describe how to construct preliminary projections. Your sales forecasts must be supported by past history, industry averages, demographic evidence, statistical evidence, survey results, seasonal trends, economic indicators, and marketing events scheduled. Be as conservative as possible.

The Longwood SBDC is available to assist with the completion of your business plan. In order to have the most productive meeting possible, please compile as much information as you can before scheduling an appointment. Your counselor will be happy to give you a pre-counseling checklist of necessary starting information.

Financial Worksheets and Pro forma Statements

Worksheet #1: Use of Proceeds* (Source & Application of Funds)

In the case of financing requests, indicate how much money is needed, where it is coming from, and how it will be used. Many companies require multiple stages of financing. If this is the case, the actual timing of the sources and uses of funds will also appear on the cash flow projections. Gather information for everything you will need in order to open the doors. Get written quotes when possible. These quotes will be included in the appendix section.

- 1) Plug the total amounts in the total column.
- 2) Estimate the maximum amount of <u>cash</u> that **you** can inject into the business and plug this amount in the bottom line of your equity investment column. This money must not be in the form of another loan and it should be money you can stand to lose.
- 3) If you have other investors, plug in the amount they have committed.
- 4) If you have arranged other sources of financing such as a capital lease on major equipment or seller financing on real estate or an existing business, plug that amount in.
- 5) The cash reserves (working capital) amount will be added later after the cash flow projections are complete.
- 6) The difference between the amount you need and the financing you have already arranged is the exact amount you will request from the bank.

The specific items each source will fund can be determined later. Usually a bank will want to fund fixed assets such as building, land, and equipment and you will fund as much inventory, fees, working capital, and other soft costs as you can. This table will be re-worked several times before a final version is created for the financing proposal.

Worksheet #1: Source & Application of Funds Statement

Application	Source								
	<u>Equity</u>		<u>Debt</u>		<u>Total</u>				
Building Land Equipment Fixtures Vehicles Inventory Improvements Fees, Closing Costs, Deposits Cash Reserves	Owner (You)	Investors	Misc. Loan	Bank Loan					
Totals									

Worksheet #1 Example:

Application	Source									
	<u>Equity</u>		<u>Debt</u>		<u>Total</u>					
	Owner	Investors	Misc. Loan	Bank Loan						
Building				\$125,000	\$125,000					
Land				25.000	25,000					
Equipment			\$25,000	25,000	50,000					
Fixtures		\$20,000		ŕ	20,000					
Vehicles			35,000		35,000					
Inventory	\$25,000			75,000	100,000					
Improvements		8,500			8,500					
Fees, Closing Costs, Deposits	5,000				5,000					
Cash Reserves	20,000				20,000					
Totals	\$50,000	\$28,500	\$60,000	\$250,000	\$388,500					

Worksheet #2 Total Monthly Fixed Cash Disbursements

This worksheet is used to calculate the total fixed monthly operating cost amount, which will be entered on line 7 of the Income Statement Worksheet #3.

Notes-

- 1. Wages Only the monthly wages that will be about the same every month. Use a formula. For example: $4 \text{ employees } \times 40 \text{ hours } \times 5.15 \text{ per hour } \times 4.33 \text{ weeks in an average month} = \$3,568$. Per month.
- 2. Payroll Taxes Rule of Thumb: 7.65% of wages. Example: \$3568 x 0.765 = \$273.
- 3. Outside Services Monthly fees for pest control, trash removal, laundry, cleaning, etc.
- 4. Advertising If you are budgeting a fixed amount enter here. If you are budgeting a percentage of sales, enter under variable expenses.
- 5. Rent Base rent is a fixed expense. In some cases, a lease also stipulates a percentage of gross sales, which is a variable expense.
- 6. Telephone Unless you telemarket or receive 800 number orders, estimate a fixed amount.
- 7. Utilities Estimate a fixed amount unless you foresee huge seasonal fluctuations.
- 8. Insurance Get a quote. Enter here only if you pay premiums monthly.
- 9. Total Enter this number on line 7 of Worksheet #3.

Worksheet 2: Monthly Fixed Cash Disbursements

	WOIKSHEEL 2.	Monthly Fixed Cash Disbursements
Category	Amount	Explanation
Employee Wages (Note #1)		
Payroll Taxes (2)		
Outside Services (3)		
Supplies		
Repairs and Maintenance		
Advertising (4)		
Car, Delivery, Travel, Freight		
Accounting and Legal		
Rent (5)		
Telephone (6)		
Utilities (7)		
Insurance (8)		
Other Expenses (Specify):		
Total Fixed Monthly Operating		
Expenses (9)		

Worksheet 2: Example Monthly Fixed Cash Disbursements

Category	Amount	Explanation
Employee Wages	\$3,568	4 employees x 40 hours x \$5.15 x 4.33 weeks = \$3568 per month
Payroll Taxes	273	\$3568 x 7.65%
Outside Services	50	Pest control, trash removal, cleaning service
Supplies	75	Misc. boxes, ribbons, etc.
Repairs and Maintenance	50	General maintenance
Advertising	250	Yellow Pages Ad
Car, Delivery, Travel, Freight	50	Average of \$50 monthly local delivery costs, stamps, etc.
Accounting and Legal	50	Bookkeeper
Rent	750	5 year lease including common fees/60 months
Telephone	100	Estimate based on similar businesses
Utilities	150	Estimate from Virginia Power based on square footage and use of facilities
Equipment Lease	200	Point of sale Computer System
Total Fixed Monthly Expenses	\$5566	

Instructions for Constructing the Income and Cash Flow Statements

- Assign Months to the columns based on when you anticipate opening. For example, if you plan on opening in July, the projections will run from July to June.
- Research the seasonality of your business month-by-month. (Some retailers do nearly half of their business in November and December.)
- Provide a separate sheet detailing the assumptions used to calculate each line item.

Income Statement – Worksheet #3 Instructions

1 a	Actual <i>cash</i> sales receipts
1 b	Sales billed to customers on account (Accounts Receivable). On the Income Statement, these amounts are recorded when billed. You will record this amount on the Cash Flow pro forma when the checks are actually received.
2	Total Sales - Add lines 1a and 1b. The Income Statement portion is done on the accrual method of accounting. This means that sales and expenses are recorded when the transaction occurs regardless of whether you received or paid the actual cash at the same time.
3	Subtract Cost of Goods Sold (CoGS). For now, estimate the percentage your inventory costs you in relation to the amount you sell it for. A typical retailer "keystones" the inventory or doubles the cost which means that CoGS is 50%. Some restaurants can expect CoGS to be 25% to 35%. It is important to distinguish CoGS from actual inventory purchases because it is a more accurate determination of profitability during a period of time. You will record the actual <i>cash</i> payment you made for those goods on the Cash Flow pro forma. CoGS matches the <i>cost</i> of inventory that goes out the door with the sales that came in. Most service businesses will not have a CoGS and will simply skip this line.
4	Total Sales minus CoGS = Gross Profit
5	Variable Monthly Operating Expenses are expense items that change in direct proportions with your sales volume. This could include extra labor after a certain point, the fees a credit card company charges, a royalty paid to a franchiser, etc. For example: 5% franchise royalty on $$12,500$ sales is $$12,500 \times .05 = 625 .
6	Periodic Operating Expenses are items paid annually, quarterly, or randomly. An example is a quarterly insurance premium.
7	Fixed Monthly Operating Expenses – Enter the total from Worksheet #2.
8	Total Cash Operating Expenses – Add all items from line 5 through 7.
9	Non-Cash and Non-Operating Expenses are tax deductible but do not necessarily represent "real" money. In accrual accounting you deduct interest only, not the entire debt payment. This amount will come from a loan amortization table. Leave depreciation blank for now or enter a monthly amount equal to $1/60^{th}$ the cost of equipment plus $1/400^{th}$ the cost of any real estate. Owner's salary/withdrawals are a luxury for start-up businesses. (You get one if there is any money left.)
10	Total Expenses – Add lines 8 and 9a and 9b.
11	Net Profit – This is the projected operating profit for your business prior to any withdrawals or owner's salary and income taxes.

Worksheet #3 Income Statement

Income Statement Data	Month	12 month											
	1	2	3	4	5	6	7	8	9	10	11	12	Total
(1) Sales:													
(a) Cash Sales Receipts													
(b) Billed to Customer on Account													
(2) Total Sales													
(1a+1b)													
(3) Cost of Goods Sold													
(4) Gross Profit													
(2 - 3)													
(5) Variable Monthly Operating Expenses													
(a)													
(b)													
(c)													
(d)													
(6) Periodic Operating Expenses													
(a)													
(b)													
(c)													
(d)													
(7) Fixed Monthly Operating Expenses													
(From Worksheet #2)													
(8)Total Cash Operating Expenses													
(5+6+7)													
(9) Non-Cash and Non-Operating Expenses													
(a) Depreciation & Amortization													
(b) Interest on Loan													
(c) Owner's Salary / Withdrawal													
(10) Total Expenses (8 + 9a + 9b + 9c)													
(11) Net Profit Before Income Taxes (4 - 10)													

Worksheet #3 <u>Income Statement</u> - Example

Income Statement Data	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	12 month Total
Sales:	1												Total
Cash Sales Receipts	24,310	25,908	22,990	11,909	11,453	13,572	24,597	33,063	71,935	9,584	8,873	11,806	270,000
Billed to Customer on Account	2,701	2,879	2,554	1,323	1,273	1,508	2,733	3,674	7,993	1,065	986	1,312	30,000
Total Sales	27,011	28,786	25,545	13,233	12,725	15,080	27,330	36,737	79,928	10,649	9,859	13,117	300,000
Cost of Goods Sold	14,856	15,833	14,050	7,278	6,999	8,294	15,031	20,205	43,960	5,857	5,422	7,215	165,000
Gross Profit	12,155	12,954	11,495	5,955	5,726	6,786	12,298	16,532	35,967	4,792	4,436	5,903	135,000
Variable Monthly Operating Expenses													
Advertising	810	864	766	397	382	452	820	1,102	2,398	319	296	394	9,000
Freight & Postage	68	72	16064	33	32	38	68	92	200	27	25	33	750
Credit Card Fees	169	180	160	83	80	94	171	230	500	67	62	82	1,875
Periodic Operating Expenses													
Insurance	500			500			500			500			2,000
Legal & Accounting	550	50	50	250	50	50	250	50	50	250	50	50	1,700
Misc. Taxes, Licenses, Fees	100			300					250				650
Dues & Publications		50					50						100
Fixed Monthly Operating Expenses													66.700
(From Worksheet #2)	5,566	5,566	5,566	5,566	5,566	5,566	5,566	5,566	5,566	5,566	5,566	5,566	66,792
Total Cash Operating Expenses	7,762	6,781	6,605	7,128	6,109	6,200	7,425	7,039	8,963	6,728	5,998	6,124	82,861
Non-Cash and Non-Operating Expenses													
Interest on Loan	1,250	1,247	1,244	1,241	1,238	1,235	1,232	1,228	1,225	1,222	1,219	1,215	14,795
Depreciation & Amortization	458	458	458	458	458	458	458	458	458	458	458	458	5,500
Owner's Salary / Withdrawal	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Total Expenses	10,971	9,986	9,808	10,327	9,305	9,393	10,614	10,226	12,146	9,908	9,175	9,298	121,156
Net Profit Before Income Taxes	1,184	2,968	1,687	(4,373)	(3,578)	(2,607)	1,684	6,306	23,821	(5,116)	(4,738)	(3,395)	13,844

Notes to the Income Statement (Assump	ptions):		

Cash Flow Statement

Worksheet #4 Instructions

12	Beginning Cash Balance (Income) – If you are starting a business start with zero. If you have an existing business, enter your present cash balance.								
13a	Sales and Receipts - Enter the same figure from line 1a, worksheet #3.								
13b	Accounts Receivable Collections – Enter the amount of cash you anticipate receiving from customers for sales made on Accounts Receivable.								
13c	Cash in From Owner's Injection – Enter your investment.								
13d	Loan Proceeds – Enter the amount of the business loan you are requesting.								
14	Available Cash Balance – Add lines 12 through 13d.								
15a	Inventory Purchases – Enter the anticipated payments for merchandise received. If you can not obtain trade credit, then C.O.D. payments will be made when you receive the inventory rather than in 30 to 60 days.								
15b	Total Cash Operating Expenses – From line 8, worksheet #3.								
15c	Loan Payments – Principle and Interest Payments from amortization table. Use a separate line for different loans if you have more than one.								
15d	Capital Purchases – If you anticipate buying major equipment in the near future, enter the amount in the month you will make the purchase. Generally this capital expenditure will be depreciated.								
15e	Owner's Draw – Enter the absolute minimum amount of cash you must withdraw from the business to meet personal expenses.								
16	Initial Loan Uses – These items should come from the Source & Application of Funds Statement. (Building, Equipment, Inventory, Misc. Fees and Start-Up Expenses.)								
17	Total Cash Outflows – Add all lines from 15a through 16d.								
18	Ending Cash Balance – Subtract line 17 from line 14. This is the approximate amount of cash you will have on hand at the end of the month. Enter this same figure as the beginning cash balance for the following month.								

Worksheet #4 Cash Flows

Cash Flow Statement Worksheet #4														
	[Startup]	[Month]	[Month]	[Month]	[Month]	[Month]	[Month]	[Month]	[Month]	[Month]	[Month]	[Month]	[Month]	Total
(12) Beginning Cash Balance														
(13) Cash Inflows (Income):														
(a) Sales & Receipts														
(b) Accts. Rec. Collections														
(c) Cash in from Owner's Injection	-													
(d) Loan Proceeds				·										
Total Cash Inflows														
(14) Available Cash Balance														
(15) Cash Outflows (Expenses):														
(a) Inventory Purchases														
(b) Total Cash Operating Expenses (From Line 8, Workshee	et 2)													
(c) Loan Payments			· · · · · ·	·				· · · · · · · · · · · · · · · · · · ·					· ·	
(d) Capital Purchases														
(e) Owner's Draw													•	
(16) Initial Loan Uses:														
(a) Building				<u>-</u>										
(b) Equipment														
(c) Initial Inventory														
(d) Misc. Startup Exp.														
(17) Total Cash Outflows														
(18) Ending Cash Balance				_										
Notes to the Cash Flow State	ment (Assum	intions).												
notes to the cash Flow States	ment (Assult	iptionsj.												

					Cash F	low State	ment Exa	mple Worl	ksheet #4						
		Startup	April	May	June	July	Aug	Sept	Oct	Now	Dec	Jan	Feb	March	Total
12) Beginning C	Cash Balance	0	15,000	\$18,441	\$25,812	\$31,880	\$21,271	\$10,447	\$6,010	\$6,465	\$15,503	\$58,571	\$54,153	\$48,450	\$15,00
13) Cash Inflow	s (Income):														
	(a) Sales & Receipts		24,310	25,908	22,990	11,909	11,453	13,572	24,597	33,063	71,935	9,584	8,873	11,806	\$270,00
	(b) Accts. Rec. Collections			1,351	2,790	2,717	1,939	1,298	1,390	2,121	3,203	5,833	4,529	1,025	\$28,19
	(c) Cash in from Owner's Injection	20,000						· ·							\$20,00
	(d) Loan Proceeds	150,000						· · ·							\$150,00
											•				\$
	Total Cash Inflows	\$170,000	\$24,310	\$27,259	\$25,780	\$14,626	\$13,392	\$14,870	\$25,987	\$35,184	\$75,138	\$15,417	\$13,402	\$12,831	
14) Available Ca	ash Balance	\$170,000	\$39,310	\$45,700	\$51,592	\$46,506	\$34,663	\$25,317	\$31,997	\$41,649	\$90,641	\$73,988	\$67,555	\$61,281	
15) Cash Outflo	ws (Expenses):														
	(a) Inventory Purchases	, ,	10,000	10,000	10,000	15,000	15,000	10,000	15,000	15,000	20,000	10,000	10,000	15,000	\$155,00
	(b) Total Cash Operating Expens (From line 8-works	es sheet 2)	7,757	6,776	6,600	7,123	6,104	6,195	7,420	7,034	8,958	6,723	5,993	6,119	\$82,80
	(c) Loan Payments		1,612	1,612	1,612	1,612	1,612	1,612	1,612	1,612	1,612	1,612	1,612	1,612	\$19,34
	(d) Capital Purchases									1,000					\$1,00
	(e) Owner's Draw		1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	\$18,00
16) Initial Loan	Uses:													 	
	(a) Building	50,000													50,00
	(b) Equipment	20,000		 	· · · · · · · · · · · · · · · · · · ·			· · · · · · · · · · · · · · · · · · ·	 	 			· · · · · ·	 	20,00
	(c) Initial Inventory	75,000													75,00
	(d) Misc. Startup Exp.	10,000		 	· · · · · ·								· · · · · ·		10,00
	(17) Total Cash Outflows	\$155,000	\$20,869	\$19,888	\$19,712	\$25,235	\$24,216	\$19,307	\$25,532	\$26,146	\$32,070	\$19,835	\$19,105	\$24,231	
18) Ending Casl		\$15,000	\$18,441	\$25,812	\$31,880	\$21,271	\$10,447	\$6,010	\$6,465	\$15,503	\$58,571	\$54,153	\$48,450	\$37,050	
Notes to the Cas	sh Flow Statement (Ass	umptions):													

Balance Sheet: (Optional) Financial projections often include balance sheet projections to show the impact of existing and new business on assets, liabilities and equity. Existing businesses may enter actual numbers from the latest balance sheet in the Pro Forma/Beginning column and use income and cash flow projections to estimate balances after year one and year two. If you are a sole proprietor, you may not have prepared a balance sheet.

Balance Sheets	Pro Forma/Beginning	End of Year One	End of Year Two
Assets:			
Current Assets			
Cash			
Accounts Receivable			
Inventory			
Total Current Assets			
Fixed Assets			
Real Estate			
Fixtures and Equipment			
Vehicles			
(Less Accum. Depreciation)			
Net Fixed Assets			
Prepaid Expenses			
Other Assets			
Total Assets			
Liabilities:			
Current Liabilities			
Notes Payable (Due within one year)			
Accounts Payable			
Accrued Expenses			
Taxes Owed			
Total Current Liabilities			
Long Term Liabilities			
Notes Payable (Due after one year)			
Other Liabilities			
Total Long Term Liabilities			
Total Liabilities			
Net Worth (Assets – Liabilities)			
Capital Stock			
Retained Earnings			
Total Liabilities and Net Worth			
(Should equal assets)			

Aging of Accounts Receivable and Accounts Payable Summary

Creditors often request an aging schedule of accounts receivable and payable to assist them in analyzing your cash flow. NOTE: Accounts Receivable and Accounts Payable must reconcile with the current business balance sheet that is provided with the application. (Please attach actual schedules to support summary information)

AGING	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE
Under 30 days	\$	\$
30 –59 days	\$	\$
60 – 89 days	\$	\$
90 –119 days	\$	\$
120 –180 days	\$	\$
Other	\$	\$
TOTALS:	\$	\$
A/R percentage % greater the	han or equal to 90 days:	
	than or equal to 10% of total:	
A/R percentage % greater the	han or equal to 90 days:	
A/P Concentration greater t	han or equal to 10% of total:	
A/P percentage % greater th	nan or equal to 90 days:	
EXPLAIN COLLECTION	N/PAYMENT PROCESS:	
Signature		Date

Notes and Leases Payable Schedule

This schedule assists len balance due column sho								options. The to	otal of the
Name		<u>.</u>	Date						
Schedule of all BUSINESS	S NOTES ON	LY including v	wholesale plan	s on cars, mor	tgages, installr	nent debts and	other contract	tual obligations	5.
Account Number And To Whom Payable	Original Amount	Original Date	Balance Due	Interest Rate	Maturity Date	Monthly Payment	Security	How were Proceeds used	Status
Signature				Da	ate	·			



You can use simple break-even analysis to determine the minimum amount of volume you need to do to pay all the bills. This can be the first step in a personal feasibility study. If you determine that you can at least break even, you can use the formula to estimate sales goals and formulate marketing efforts to achieve these goals.

1. Add up fixed expenses.

This includes every expense you must pay to open your doors for business regardless of whether you have any sales or not. Fixed costs remain relatively constant as the quantity produced or sold varies. This would include rent, electricity, indirect labor (base salaries), loan payments, phone, etc.

2. Calculate your variable costs percentage.

This includes expenses that vary directly with sales and would include cost-of-goods-sold (CoGS), sales commissions, credit card fees, direct labor (e.g., manufacturers), etc.

Some expenses are fixed up to a certain point and then become variable. For example, a store could require a minimum payroll to simply open the doors and then as the sales level fluctuates part-time help could be called in or sent home. The part-time flexible payroll could be categorized as variable. For example:

Total Variable Cost Percentage	53%
Direct Labor	8%
Commissions	7%
Cost of Goods Sold	38%

3. Simple Calculation

If your fixed costs are \$3,000 per month and your variable costs are 53%, break-even is calculated as follows:

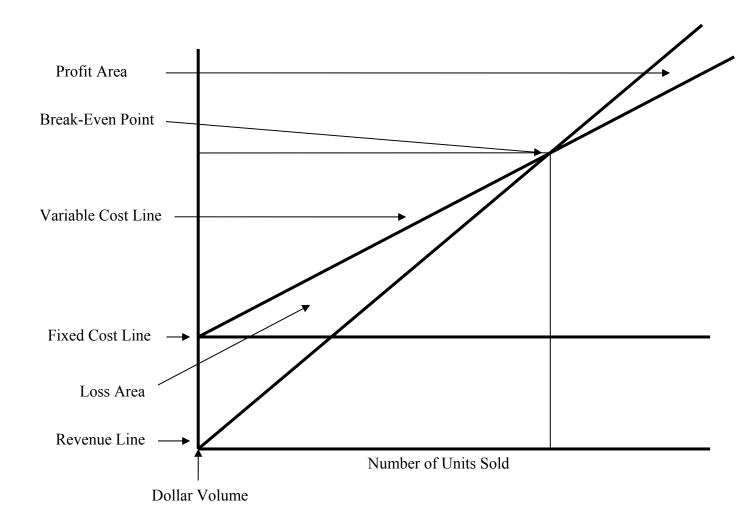
If your goal is to make a \$1,000 profit, add that amount to fixed costs:

$$(\$3,000 + \$1,000) / .47$$

 $\$4,000 / .47 = \$8,510.63$

Seemingly minor changes in expenses or prices can have a significant impact on the dollar volume a small business must achieve. Break-even analysis is often shown in graphic format:

Break Even Analysis



MANAGEMENT RESUME

Please fill in all spaces, use full first, middle, and maiden names. If an item is not applicable, please so indicate. All owners, partners, directors, stockholders, and key managers should complete this form.

PERSONAL

Name					SS#	
FIRST	MIDDLE	MAIDEN		LAST		
Date of Birth		Place of Birth				
Residence Telephone ()					
Residence Address	STREET		CITY		STATE	ZIP
Previous Address	STREET		CITI		SIME	ZII
110 110 415 11441 055	STREET		CITY		STATE	ZIP
Lived there from			_to			(MONTH AND YEAR)
Spouse's Name					SS#	
FIRST	MIDDLE	MAIDEN		LAST		
EDUCATION						
Type of	Name & Location		Dates			Did You
Degree	of Institution		From/To	Major		Graduate
Branch	E (LIST CHRONOLOGIO	CALLY, BEGINNING	Rank at I			
From	10	Title				
Duties						
Company Name/Locat	ion					
From	To	Titla				
Duties						
Company Name/Locat	ion					
company round, 20000						
From	To	Title				
Duties						
Company Name/Locat	ion					
		U MAY INCLUDE AL	DDITIONAL RELE	VANT INFORMATIO	N ON A SEPARATE	E EXIBIT)
Cianata	ro				Date	
Signatu	I C				Date	

PERSONAL FINANCIAL STATEMENT

Name:	
Address:	Date:
<u>ASSETS</u>	\$ Amount
Cash on Hand and in Banks (See Schedule A) U.S. Government Securities Accounts and Notes Receivable (See Schedule B) Life Insurance, Cash Surrender Value Stocks and Bonds (See Schedule C) Real Estate (See Schedule D) Automobiles Other Assets (Itemize)	
Total Assets	
<u>LIABILITIES</u>	
Notes Payable to Bank Notes Payable to Others, Unsecured Notes Payable to Others, Secured Loans against Life Insurance Accounts Payable Interest Payable Taxes and Assessments Payable Mortgages Payable on Real Estate (See Schedule D) Other Liabilities (Itemize)	
Total Liabilities NET WORTH	
ANNUAL INCOME	
SalarySalary (Spouse)Securities Income	
2. 3. TOTAL INCOME \$	<u></u>
TATEAT INTO ANALY	

PERSONAL FINANCIAL STATEMENT SUPPLEMENTARY SCHEDULES

4: BANKING RELATIONS 1. NAME AND LOCATION OF BANK CASH BALANCE OUTSTANDING LOANS / MATURITY SECURED BY: 2. NAME AND LOCATION OF BANK CASH BALANCE OUTSTANDING LOANS / MATURITY SECURED BY: 3. NAME AND LOCATION OF BANK CASH BALANCE OUTSTANDING LOANS / MATURITY SECURED BY:		
B: ACCOUNT'S, LOANS, AND NOTES F 1. NAME AND ADDRESS OF DEBTOR AMOUNT / AGE / MATURITY DESCRIPTION / SECURITY	RECEIVABLE	
2. NAME AND ADDRESS OF DEBTOR AMOUNT / AGE / MATURITY DESCRIPTION / SECURITY		
C: STOCKS AND BONDS 1. FACE VALUE / NO. SHARES DESCRIPTION COST / PRESENT MARKET VALUE PLEDGED? 2. FACE VALUE / NO. SHARES DESCRIPTION COST / PRESENT MARKET VALUE PLEDGED? 3. FACE VALUE / NO. SHARES DESCRIPTION COST / PRESENT MARKET VALUE PLEDGED?		- - - - - - -
DESCRIPTION MORTGAGES OR LIENS (1 ST AND 2 ND) ANNUAL DEBT SERVICE ASSESSED / MARKET VALUE		- - - -
MORTGAGES OR LIENS (1 ST AND 2 ND) ANNUAL DEBT SERVICE ASSESSED / MARKET VALUE		- - -
3. DESCRIPTION OR STREET NUMBER DESCRIPTION MORTGAGES OR LIENS (1 ST AND 2 ND) ANNUAL DEBT SERVICE ASSESSED / MARKET VALUE		
Signature(s):		

Personal Income and Expense Analysis

Name(s)			
INCOMES:		MONTHLY	ANNUALLY
Available Draw Gross Salary Gross Salary Rental Income Interest Income Alimony	(NP + Depreciation) (Principal) (Spouse) (Gross) (Recurring)		
Other Income	(Recurring)		
TOTAL INCOME			
EXPENSES:			
Residence Expense Rental Mortgages Rental Expenses Auto Loans Installment Loans Revolving Credit Utilities/Phone Insurances Food Clothing Medical Expenses Income Taxes Property Taxes Alimony Child Care Other Expenses Miscellaneous (TYPICAL RANGE IS 5% - 10% OF	(Rent of P&I) (P&I) (Cash Exp. Less P&I) (All) (All) (5% of TRW Balances) (Estimate) (All Personal) (Estimate) (Estimate) (Stimate) (Historical Rate) (Historical Rate) (If Applicable) (If Applicable) (Lestimate) (If Applicable)		
Total Expenses			
Net Discretionary In	come		
Coverage Ratio (incom	me/expense)		
Signature	Date		

Feasibility Checklist: Are You Ready to Start a Small Business?

This checklist should be useful in evaluating your business idea as well as your personal ability to run a business and assume the risk. We recommend serious consideration of these questions before you prepare a business plan.

	Yes	No
Personality Traits:		
Do you like to make your own decisions?		
Do you enjoy competition?		
Do you have will power and self-discipline?		
Do you plan ahead?		
Do you get things done on time?		
Can you take advice from others?		
Are you adaptable to changing conditions?		
Physical, Emotional and Financial Stamina:	Yes	No
Do you understand that owning your own business may entail		
working 12 to 16 hours a day, probably 6 days a week, and maybe on holidays?		
Do you have the physical stamina to handle a business?		
Do you have the emotional strength to withstand the strain?		
Are you prepared to lower your standard of living for several		
months or years?		
Are you prepared to lose your savings?		
Skills and Abilities:	Yes	No
Do you know which skills and areas of expertise are critical to the		
success of your project?		
Do you have these skills?		
Does your idea effectively utilize your own skills and abilities?		
Can you find personnel that have the expertise you lack?		
Do you know why you are considering this project?		
Will your project effectively meet your career aspirations?		
Requirements for Success:	Yes	No
To determine whether your idea meets the basic requirements for a		
successful project, you must be able to answer at least one of the		
following questions with "yes"		
Does the product/service/business serve a presently un-served need?		
Does the product/service/business serve an existing market in which demand exceeds supply?		

Can the product/service/business successfully compete with existing competition because of an "advantageous situation", such as better price departies, etc.?	Yes	No
as better price, location, etc.? Major Flaws:	Yes	No
A "yes" response to questions such as the following would indicate that the idea has little chance for success.		
Are there any causes (i.e. restrictions, monopolies, shortages) that make any of the required factors of production unavailable (i.e. unreasonable cost, scarce skills, energy, material, equipment, processes, technology, or personnel)? Are capital requirements for entry or continuing operations excessive? Is adequate financing hard to obtain? Are there potential detrimental environmental effects? Are there factors that prevent effective marketing?		
Desired Income: The following questions should remind you that you must seek a return on the investment in your own business. How much income do you desire?		
Are you prepared to earn less income in the 1 st - 3 rd years? What minimum income do you require? What financial investment will be required for the business? How much could you earn by investing this money? (A) How much could you earn by working for someone else? (B) Add the amounts in (A) and (B). If this income is greater than what you can realistically expect from your business, are you prepared to forego this additional income to be your own boss with the possible prospects of more substantial profit/income in future years?	Yes	No
Supply: Can you make a list of every item of inventory and operating supplies needed? Do you know the quantity, quality, technical specifications, and price ranges desired? Do you know the name and location of each potential source of supply? Do you know the price ranges available for each product from each supplier? Do you know about the delivery schedules for each supplier? Do you know the sales terms of each supplier? Do you know the credit terms of each supplier?	Yes	No

Do you know the financial condition of each supplier?	Yes	No
Is there a risk of shortage for any critical materials or merchandise? Are you aware of which suppliers have an advantage relative to	Yes	No
transportation costs? Will the price available allow you to achieve an adequate markup?		
Expenses: Do you know what your expenses will be for: rent, wages, insurance, utilities, advertising, interest, etc.? Do you need to know which expenses are direct, indirect, or fixed? Do you know how much your overhead will be? Do you know how much your selling expenses will be?	Yes	No
Miscellaneous Are you aware of any major risks associated with your product, service, and/or business? Can you minimize any of these major risks? Are there major risks beyond your control? Can these risks bankrupt you?	Yes	No
Venture Feasibility Are there any major questions remaining about your proposed venture? Do the above questions arise because of a lack of data? Do the above questions arise because of a lack of management skills? Do the above questions arise because of a "fatal flaw" in your idea? Can you obtain the additional data needed? Can you obtain the additional managerial skills needed? Are you aware that there is less than a 50-50 chance that you will	Yes	No
be in business two years from now?		